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Review of the administrative and financial functioning of the United Nations

Procurement reform

Report of the Secretary-General**

Summary

The present report is submited to the General Assembly pursuant to resolution 54/14 of 29 October 1999.

The report details the initiaives taken by the Secretariat in response to concerns expressed in the resolution. Most of these initiatives have been implemented and have already produced the desired results. These initiatives were mainly targeted at increasing transparency and evaluation objectivity in the bidding process, encouraging greater participaton by vendors from developing countries and countries with economies in transition, and increasing the cost-effectiveness of the Secretariat's procurement activties. The Secretary-General remains committed to ensuring that these positive developments in procurement reform are sustained and advanced.

For ease of reference, therelevant paragraphs of resolution 54/14 are in bold type below. The Secretary-General's responses follow. The section numbers and headings correspond to those set forth in resolution 54/14.

* A/55/150.

** The footnote requested by the Geneal Assembly in resolution 54/248 was not included in the submission.

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I. General comment

1. *Recognizes* the recent improvements made by the Secretary-General in procurement reform;

The Secretary-General wishes to express appreciation for the recognition by Member States of improvements in procurement reform.

2. *Notes with concern* that some of the provisions of its resolution 52/226 A have not been fully and adequately implemented, and requests the Secretary-General to complete the implementation of all outstanding provisions;

The Secretary-General wishes to inform Member States that the Procurement Division has taken various measures to implement the provisions set forth in resolution 52/226 A. Actions taken are summarized in the present report.

3. *Stresses* the need for the procurement system to be transparent, open, impartial and cost-effective, based on competitive bidding and fully reflecting the international character of the United Nations;

The Secretary-General wishes to share the views expressed by Member States and reaffirms his commitment to implement and sustain the procurement reform measures taken as outlined in the present report.

II. Procurement Manual

4. *Welcomes* the publication of the Procurement Manual, and requests the Secretary-General to update it, as appropriate, taking into account the recommendations of the Board of Auditors in paragraphs 99 to 104 of its report and including a step-by-step discussion of procedures required for field personnel to perform their duties;

The Secretary-General wishes to inform Member States that work on a revision of the Procurement Manual has begun. The revision will take into account the recommendations of the Board of Auditors, as set forth in paragraphs 99 to 104 of its report,[1] as well as all relevant comments on the subject by the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee. The Secretariat has also finalized a simple step-by-step guideline of the procurement process on the Intranet.

III. General procurement process

5. *Requests* the Secretary-General to take the necessary measures to ensure that the bids received through electronic means are not compromised and to report on this in his next report on procurement reform;

The Secretary-General wishes to inform Member States that tender invitations are dispatched, and bids are received, only by mail or facsimile. Facsimile machines are located in a locked room with restricted access. Bids are not received through electronic mail.

6. *Endorses* the observations of the Advisory Committee on Administrative and Budgetary Questions regarding the need to take steps to ensure that specifications are not deliberately tailored to predetermine the choice of supplier and that the principle of separation of responsibilities of the requisitioning and approving officers is maintained;

The Secretary-General wishes to inform Member States that, except for purchases of equipment and supplies on the basis of standardization (e.g., office furniture), only generic specifications are accepted from requisitioning offices. Strict enforcement of this requirement over the past year has led to a wider geographic distribution of vendors from whom the Secretariat makes purchases. The bid evaluation process has also been enhanced by the inclusion of established evaluation criteria in the bid documents.

7. *Requests* the Secretary-General to continue his efforts to ensure wider participation of suppliers from all Member States, taking into account the principles enshrined in the Charter of the United Nations;

The Secretary-General wishes to inform Member States that the Procurement Division has taken a number of initiatives to encourage greater participation in United Nations procurement by vendors, especially those from developing countries and countries with economies in transition. In this regard, the Procurement Division has initiated a more proactive effort to

organize and participate in business seminars and briefing sessions, distribute briefing materials in CD-ROM and video formats to Member States, United Nations information centres offices away from Headquarters and field missions, use the Internet for advertisement of local services and post detailed information on winners of contracts to facilitate communication between the United Nations contractors and local service providers. Details of these initiatives are further explained in response to paragraph 27 below.

8. *Also requests* the Secretary-General to improve further the competitive bidding process in order to ensure that vendors are granted reasonable time for the submission of bids;

The Secretary-General wishes to inform Member States that the Procurement Division has been actively using the Internet site to post requests for expression of interest to provide potential suppliers with advance information on future procurement opportunities. The Procurement Division has also undertaken regular meetings with requisitioning offices to review procurement plans and discuss upcoming requirements. Such activities also help the Procurement Division to reduce the number of tenders with a short lead time. However, the Secretary-General wishes to remind Member States that the Procurement Division cannot eliminate tenders with a short lead time, in particular for emergency requirements to support the peacekeeping missions.

9. *Welcomes* the increased use by the Secretary-General of modern electronic means of communication to disseminate information regarding requests for proposals, invitations to bid and requests for expression of interest, and requests him to continue to utilize traditional means of communication for such information upon request;

The Secretary-General wishes to inform Member States that the Procurement Division posts information on tenders currently in the market and requests for expression of interest to encourage suppliers to register with the Procurement Division for future procurement opportunities. While the Internet is utilized as one method of communicating with the public, the Procurement Division also makes information available through traditional means. Simple-to-read and easily replicated printed brochures on "How to do business with the United Nations Procurement Division" have been produced in all the official languages and are freely distributed to the permanent missions to the United Nations and the general public. At the present time, tender documents are distributed only through traditional means of communication such as mail and facsimile.

10. *Requests* the Secretary-General to consider ways to increase the transparency of procurement decisions, including the possibility of reviving the practice of the reading of prices and other decisive elements at public bid openings for requests for proposals, and to report thereon in his next report on procurement reform;

The Secretary-General wishes to inform Member States that all relevant procurement information, including the names and addresses of vendors awarded contracts and the value of each contract, is posted on a daily basis on the Procurement Division's Internet web site. The Secretariat has received feedback that the availability of comprehensive information on the Procurement Division's web site has made United Nations procurement activities one of the most transparent among international organizations. The Secretariat reads out price information from responses to invitations to bid at public openings. However, experience has shown that the reading out of price information for requests for proposals, where price is not the sole determinant, leads to unnecessary delays in the procurement process. Recent consultations have confirmed that this practice is consistent with that of other major procurement offices in the United Nations system.

11. *Also requests* the Secretary-General to enhance and expedite the procurement process and to improve communication with suppliers;

The Secretary-General wishes to inform Member States that dealings with vendors have been enhanced and facilitated through the increased use of expressions of interest and the posting of annual procurement plans on the Procurement Division's Internet web site. These public notifications provide not only advance information of requirements to registered vendors, but also serve to encourage new vendors with relevant products or services to seek registration. Instructions

have been issued to the staff of the Procurement Division requiring that all communications from suppliers be responded to within 72 hours.

IV. United Nations roster and common supplier database

12. *Notes* the efforts of the United Nations system to establish a common supplier database whereby participating organizations will be able to share information on suppliers, including evaluations of performance;

The Secretary-General wishes to inform Member States that the Procurement Division uses information on suppliers in the United Nations Common Supplier Database (UNCSD) as reference. The Procurement Division will work with the UNCSD secretariat and the other organizations of the United Nations system to explore opportunities for further collaboration.

13. *Regrets* that the supplier roster is still not representative of the membership of the United Nations, and reiterates its request to the Secretary-General to intensify further and to focus his efforts to broaden the geographical base of the roster;

The Secretary-General wishes to inform Member States that the Procurement Division has taken a number of initiatives to encourage vendors from a broader geographical base to register as potential suppliers. A number of permanent missions to the United Nations are involved in some of these initiatives, including the organization of business seminars in their industrial capitals and the distribution of relevant literature and other materials to their business communities.

14. *Requests* the Secretary-General to improve further the registration process for the supplier roster;

The Secretary-General wishes to inform Member States that vendor registration is now processed within two weeks of receipt, subject to the vendor providing all required documentation.

15. *Also requests* the Secretary-General to send invitations to tender, to the fullest extent possible, to all vendors registered under specific categories and services on the supplier roster;

The Secretary-General wishes to inform Member States that the previous practice of short-listing candidates from the vendor roster to be invited to participate in the bidding process has been curtailed. Since April 1999, all registered vendors for the required product or service are given the opportunity to participate in the tender exercise. Exceptions are made only when the list of registered vendors is excessively numerous to permit a reasonable procurement process to take place. In such eventuality, a selection of invitees is made, a record kept of that selection, and subsequent invitations are thereafter issued on a rotational basis.

16. *Further requests* the Secretary-General to explore the possibility of using the harmonized system of classification of goods for United Nations procurement and to report thereon in his next report on procurement reform;

The Secretary-General wishes to inform Member States that after careful review, the Secretariat has concluded that it is not feasible to utilize the harmonized system (HS) of classification of goods. Many classes of goods in HS are too generic to be of use under United Nations procurement methods. For instance, computers in HS are classified as word-processing machines or automatic data-processing machines while United Nations requirements are specific for laptop, notebook or desktop computers. Similar classification problems exist in the case of motor vehicles and other types of equipment.

V. Procurement planning

17. *Encourages* the Secretary-General to continue to improve annual procurement planning for all offices and departments and to make such plans publicly available, including to all permanent missions to the United Nations;

The Secretary-General wishes to inform Member States that, as indicated above under paragraph 11, the annual procurement plans are posted on the Procurement Division's Internet web site.

VI. Exigency

18. *Notes with concern* the observations of the Advisory Committee that the definition of exigency as outlined in the report of the Secretary-General appears too broad to be of any real value in exercising the required control over the use of the exigency provision, and urges the Secretary-General to submit a sharper and clearer definition of exigency needs to the General Assembly, through the Advisory Committee, at its fifty-fourth session;

The Secretary-General notes that the General Assembly, in its decision 54/468, endorsed the revised definition of exigency. The revised definition has been reflected in the Procurement Manual as an amendment and the information was distributed within the Secretariat and to offices away from Headquarters, including the peacekeeping missions.

VII. Increasing procurement from developing countries

19. *Notes with appreciation* the acknowledgement by the Secretary-General of the need to increase procurement opportunities for vendors from developing countries and countries with economies in transition and the steps taken in this regard, and requests him to enhance those efforts;

The Secretary-General wishes to inform Member States of his commitment to take proactive measures to increase procurement opportunities for vendors from developing countries and countries with economies in transition. Measures taken include business seminars scheduled to take place in 21 locations in those countries, distribution of procurement and vendor registration information in CD-ROM and video formats and more effective use of the Internet home page as described in the present report. A number of novel features have also been introduced in the Procurement Division web site, including a facility to permit vendors from those countries to post advertisements without cost.

20. *Requests* the Secretary-General to submit in his next report on procurement reform detailed information on the awarding of contracts for procurement, at Headquarters and in the field, to developing countries, in particular least developed and African countries and countries with economies in transition;

The Secretary-General wishes to inform Member States that the information on procurement in 1999 at Headquarters and in the field, broken down by country, was disseminated at the briefing session held for Member States on 10 March 2000. For a description of procurement in the field, the Procurement Division has sought assistance from the Field Administration and Logistics Division to allow the Procurement Division to have access to the information network of the missions.

21. (*a*) All invitations to tender should be posted on the Procurement Division web site as soon as they are prepared;

The Secretary-General wishes to inform Member States that tender information is posted on the Procurement Division web site as soon as it is prepared.

21. (*b*) All invitations to tender should be sent to all permanent missions to the United Nations, as well as to all United Nations information centres and other United Nations offices away from Headquarters for wider dissemination among Member States;

Tender invitations are sent to Member States, offices away from Headquarters and United Nations information centres by electronic mail as soon as tenders are issued.

21. (*c*) Procurement Division officials may undertake visits to developing countries and countries with economies in transition with a view to identifying potential vendors from those countries;

The Secretary-General wishes to inform Member States that the Procurement Division has initiated several meetings with regional groupings of developing countries and countries with economies in transition to discuss the creation of opportunities for meetings with their business communities. In 2000, arrangements have been made for the Procurement Division to visit 24 different locations for business seminars, with 21 of those locations being in developing countries or countries with economies in transition. The visits

include a briefing for delegations of the Economic Commission for Africa (ECA) in Addis Ababa.

22. *Notes with concern* the observations of the Advisory Committee in paragraph 9 of its report that, out of the eleven countries visited by the procurement officials pursuant to paragraph 13 (c) of its resolution 52/226 A, only four were from the developing world and none were countries with economies in transition;

As stated in the preceding paragraph, the Secretary-General wishes to inform Member States that the Procurement Division has arranged visits to 24 different locations for business seminars in 2000, with 21 of those locations being in developing countries or countries with economies in transition. The Secretariat was also instrumental in the selection of a developing country venue for the meeting in 2000 of the Inter-agency Procurement Working Group and the inclusion in the selection process for the venue in 2001 of a country whose economy is in transition.

23. *Requests* the Secretary-General to make all possible efforts to facilitate the identification of vendors in developing countries and countries with economies in transition, including through the expeditious dissemination of information relating to procurement to those countries and the organization of seminars at the country and regional levels between the business community and United Nations offices in those countries;

The Secretary-General wishes to inform Member States that the Procurement Division continually encourages the participation of suppliers from developing countries and countries with economies in transition, utilizing requests for expression of interest, the vendor registration programme and a new advertisement function in its Internet home page. The Procurement Division has also produced and distributed printed literature, CD-ROM and videos on doing business with the United Nations to Member States, United Nations information centres and offices away from Headquarters. Several meetings have been initiated with regional groupings of developing countries and countries with economies in transition to discuss the creation of opportunities for meetings with their business communities. In 2000, arrangements have been made for the Procurement Division to visit 24 different locations for business seminars, with 21 of those locations being in developing countries or countries with economies in transition. These proactive approaches are taken specifically for the purpose of identifying potential suppliers from developing countries and countries with economies in transition, and to provide them with opportunities to participate in United Nations procurement, including field procurement.

24. *Also requests* the Secretary-General to direct field offices to encourage interested local vendors to apply for registration on the Procurement Division vendor roster with a view to broadening its geographical base;

The Secretary-General wishes to inform Member States that the Procurement Division has taken various proactive measures, as explained under paragraphs 21 (c), 23 and 24 above and under paragraph 27 below.

25. *Encourages* the use of procurement within the region for the requirements of missions, taking into account efficiency and cost-effectiveness;

The Secretary-General wishes to inform Member States that local and regional procurement opportunities are a key message in the Procurement Division's briefing at business seminars. Host countries and local offices of United Nations entities are consistently encouraged to conduct local business meetings. In this connection, the Procurement Division's Internet home page and its brochure include a list of offices away from Headquarters, including missions. The Procurement Division has also developed a new feature in its home page where suppliers can place advertisements at no cost to facilitate United Nations offices in the region to identify potential suppliers. It has also added contact information of successful contractors to provide opportunities for local subcontract work or for the provision of local ancillary products and services.

VIII. Question of preferential treatment

26. *Reaffirms its request* to the Secretary-General to examine ways to increase opportunities for developing countries in the awarding of procurement contracts, in particular for least developed countries,

African countries and countries with economies in transition, taking into account the experience of preferential treatment in this regard in the funds and programmes of United Nations organizations and other intergovernmental institutions, and to report thereon to the General Assembly in his next report on procurement reform;

The Secretary-General wishes to inform Member States that the Secretariat has reviewed the practices and experiences of other United Nations agencies, funds and programmes in terms of the preferential treatment of vendors from developing countries and countries with economies in transition. Only the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the Office of the United Nations High Commissioner for Refugees (UNHCR) practise some form of preferential treatment in their procurement activities. In an informal arrangement for low-value local purchases, UNESCO allows a 10 per cent price preference in favour of locally produced goods where local warranty is required. The Contracts Committee of UNHCR has the authority to extend preferential treatment to suppliers from developing countries and countries with economies in transition where this is found to benefit refugees or UNHCR activities to assist refugees. Price preference does not normally exceed 15 per cent over the international cost, insurance, freight (c.i.f.) price. The Secretariat was informed that neither organization maintains specific records on these preferential practices. It is noted that, in accordance with the financial rules, the awarding of contracts in the Secretariat is based on the lowest acceptable bid in order to ensure the best use of the Organization's resources. All valid bids, regardless of origin, are considered and evaluated for best offer without prejudice or preference.

27. *Requests* the Secretary-General to continue to explore ways to increase the procurement of goods and services from developing countries, in particular from least developed and African countries, and to report thereon to the General Assembly at its fifty-fifth session;

The Secretary-General wishes to inform Member States that the Procurement Division has taken a number of initiatives to encourage greater participation in United Nations procurement by vendors, especially those from developing countries and countries with economies in transition. These initiatives include:

- A more proactive approach to, and participation in, business seminars taking place in developing countries and countries with economies in transition. In addition, the Procurement Division has initiated several meetings with regional groupings of developing countries and countries with economies in transition to discuss the creation of opportunities for meetings with their business communities. In 2000, arrangements have been made for the Procurement Division to visit 24 different locations for business seminars, with 21 of those locations being in developing countries or countries with economies in transition. The visits include a briefing for delegations of ECA;

- The holding of several procurement briefing sessions for Member States and trade missions, including one in which the United Nations Office for Project Services, the United Nations Children's Fund and the United Nations Population Fund participated;

- United Nations procurement briefing material in CD-ROM and video formats were produced and distributed to Member States, field missions, United Nations information centres and offices away from Headquarters in order to access business communities in developing countries and countries with economies in transition that do not have ready access to the Internet;

- Simple-to-read and replicate printed literature in all the official languages on how to do business with the United Nations have been produced and freely distributed to the permanent missions to the United Nations and the general public;

- A novel feature was introduced on the Procurement Division's Internet web site that permits vendors exclusively from developing countries and countries with economies in transition to advertise their products and services without cost. This facility is designed to promote greater local and regional participation by those vendors in United Nations procurement;

- Circulars were issued to United Nations information centres and offices away from Headquarters requesting that they encourage local

vendors to register on the United Nations vendor roster;

- Contact information (e.g., contact person and telephone number) of contract awardees and destination details are currently provided on the Procurement Division's Internet web site to facilitate opportunities for the provision of local ancillary products and services or for subcontract work.

28. *Also requests* the Secretary-General to submit a report on due attention paid to offers for procurement submitted by vendors from developing countries and countries with economies in transition, without prejudice to the Financial Regulations and Rules of the United Nations and taking into account the provisions of the present resolution;

As explained in the response to paragraph 26 above, the Secretary-General wishes to inform Member States that all offers are considered and evaluated, without prejudice or preference, to determine the best offer on the basis of cost efficiency regardless of origin.

IX. Regulations and rules

29. *Reiterates the request* contained in paragraph 4 of its resolution 52/226 A;[2]

The Secretary General wishes to inform Member States that a draft revision of the financial rules relating to procurement has been completed and submitted for internal review and approval within the Department of Management. A revision of the financial rules relating to procurement is expected to be issued before the end of 2000.

30. *Regrets* that the request contained in paragraph 28 of its resolution 52/226 A for the submission of proposals on possible amendments to the Financial Regulations and Rules of the United Nations, in order to address issues of potential conflict of interest, has not been fulfilled, and requests the Secretary-General to submit the proposals as a matter of priority, but not later than the end of its fifty-fourth session;

The Secretary-General wishes to inform Member States that this issue is being reviewed by the Office of Human Resources Management and will be discussed by the Management Policy Committee. Member States will be informed of the progress made.

31. *Looks forward* to the submission of the text of the additional rules requested in paragraph 10 of its resolution 52/252, as a matter of priority, but not later than the end of its fifty-fourth session;

The Secretary-General wishes to inform Member States that the issue is being reviewed by the Office of Human Resources Management and will be discussed by the Management Policy Committee. Member States will be informed of the progress made.

32. *Requests* the Secretary-General to make proposals for improving the system of payment to suppliers, including possible mechanisms similar to letters of credit;

With regard to letters of credit, the Secretary-General wishes to inform Member States that, after in-depth review, the Secretariat is of the opinion that they would not serve the interests of the Organization for the following reasons:

- Letters of credit are mainly utilized in commercial transactions where the credit-worthiness of the buyer is not assured. The integrity of the United Nations in this respect is secure;
- Letters of credit are not normally used by Governments and public institutions;
- Letters of credit are costly to issue;
- Payments under letters of credit are effected by banks against receipt of documents; this would not permit verification of the transaction by the United Nations;
- The procurement activities of the Secretariat have so far been conducted satisfactorily without the use of letters of credit.

As to the system of payment to suppliers, the Secretary-General notes that delay in payment to suppliers may sometimes be caused by incomplete documentation provided by suppliers or difficulty in matching suppliers' invoices with United Nations documents owing to short or partial shipment or problems associated with the format of invoices. Payment is processed in accordance with the Financial

Regulations and Rules as well as contractual terms and conditions. While payment terms are agreed on in each contract under the framework of the Financial Regulations and Rules and taking specific circumstances into consideration, the Procurement Division is ready to assist the Accounts Division and the requisitioning offices should problems related to payment arise.

X. Performance measurement

33. *Requests* the Secretary-General to develop a comprehensive system to measure the efficiency and cost-effectiveness of the procurement function, by taking into account the best practices of other organizations of the United Nations system in his next report on procurement reform;

The Secretary-General notes that, at the present time, there is no mechanism or methodology to measure the performance of the procurement function within the United Nations system. Consultants employed by the Secretariat, in conjunction with the Common Services Working Group, began reviewing this issue in March 2000. Their review is expected to be completed by September 2000.

XI. Reports of the Board of Auditors

34. *Requests* the Secretary-General to implement fully the provisions of paragraphs 3 and 4 of its resolution 52/212 B regarding the implementation of the recommendations of the Board of Auditors;

The Secretary-General notes that he has fully implemented the provisions of paragraphs 3 and 4 of General Assembly resolution 52/212 B.

35. *Reiterates the request* contained in paragraph 6 of its resolution 53/204 addressed to the Secretary-General and the executive heads of the United Nations funds and programmes to ensure timely implementation of the recommendations of the Board of Auditors as approved in that resolution;

The Secretary-General notes that the implementation of the recommendations of the Board of Auditors by the Secretary-General and the executive heads of the United Nations funds and programmes has been reported in full detail by the Board of Auditors in its report (A/54/159 and Corr.1). It is also noted that reports on the status of implementation of the recommendations of the Board of Auditors are submitted to the General Assembly on an annual basis in accordance with the reporting arrangements endorsed by the General Assembly in its resolution 52/212 B.

XII. Format for reports

36. *Requests* the Secretary-General to develop a standard format for future reports on procurement reform;

The Secretary-General has taken note of this requirement and has taken the steps necessary to ensure that reports are prepared in the desired format.

37. *Emphasizes* that the reports of the Secretary-General and the Advisory Committee on procurement reform should be submitted in accordance with paragraphs 24 and 25 of its resolution 52/214 B and paragraphs 10 to 12 of its resolution 53/208 B;

The Secretary-General has taken note of this requirement and has taken the steps necessary to ensure that reports are prepared in the desired format.

XIII. Method of determining the basis of statistical reports

38. *Endorses* the observations of the Advisory Committee in paragraph 8 of its report, and requests the Secretary-General to indicate on what basis the country of procurement is determined and how this methodology compares with recognized international practice.

The Secretary-General notes that the manner in which the Secretariat compiles procurement statistics is consistent with the accepted methodology within the United Nations system. The same methodology is also used in the compilation of United Nations-wide statistics by the United Nations Development Programme in its annual statistical report.

With the expanded globalization of commerce, the issue of country of origin for manufactured goods has become more complicated. In 1995, under its harmonization work programme, the World Trade Organization (WTO) requested its Committee on Rules of Origin to propose a common architecture for harmonized rules of origin.[3] The Committee was initially expected to present its proposals by 1998 but has yet to do so. A universally accepted standard has not yet been established. The Secretariat will continue to monitor the work of WTO in this area in order to establish a more suitable alternative to the present methodology.

Notes

[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5* and corrigendum (A/53/5 and Corr.1), vol. I.

[2] Paragraph 4 of resolution 52/226 A reads as follows: Also notes the delay in submission of proposals for revision of the Financial Regulations and Rules of the United Nations, which may be necessary to facilitate the implementation of the procurement reform process, and requests the Secretary-General to submit such proposals to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, for consideration by the Assembly at the second part of its resumed fifty-second session.

[3] See World Trade Organization documents G/RO/25 and G/RO/38.